

3QFY11 RESULTS UPDATE

6 November 2011

KSL Holdings Berhad

Price : RM1.38

Market Capitalization : RM539.0 mln

Market : Main Market

Sector : Properties

Bursa / Bloomberg Code: 5038 / KSL MK
Stock is Shariah-compliant.

Recommendation : Buy

KSL: 3QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Sep 11	Jun 11	% chg	Sep 10	% chg	9MFY11	9MFY10	% chg
Turnover	81.0	78.8	2.7%	40.4	100.4%	203.3	140.8	44.3%
Operating profit	44.0	36.3	21.3%	21.1	108.6%	98.7	70.2	40.7%
Finance costs	(2.9)	(2.2)		(1.5)		(7.0)	(4.0)	
Pre-tax profit	41.1	34.1	20.7%	19.6	110.2%	91.7	66.1	38.7%
Tax	(11.1)	(5.0)		(4.0)		(19.8)	(17.6)	
Net profit	30.0	29.1	3.3%	15.6	92.8%	72.0	48.6	48.2%
EPS (sen) - basic	7.8	7.5		4.0		18.6	12.8	
Op. profit margin	54.3%	46.0%		52.2%		48.6%	49.8%	
Pre-tax margin	50.8%	43.2%		48.4%		45.1%	46.9%	
Net profit margin	37.1%	36.9%		38.5%		35.4%	34.5%	
NTA/share (RM)	2.47							

3QFY11 Results Review

- KSL's robust performance continued into 3QFY11 with net profit doubling y-o-y to RM30.0 mln, bringing 9MFY11 net profit to RM72.0 mln. The results were above our expectations, having reached 82% of our FY11 profit estimate.
- 9MFY11 revenue and net profit were up 44.3% and 48.2% y-o-y to RM203.3 mln and RM72.0 mln respectively. The solid bottom line was chiefly buoyed by much higher rental income from its property investments, as well as improved performance from its property development activities.
- The nearly 6-fold y-o-y surge in KSL's property investments to RM35.2 mln was mainly due to rental income from its flagship mall, KSL City Shopping Mall, which commenced operations in December 2010, in addition to its other existing rental properties of two Giant Hypermarkets and one Best Mart located in Muar and Nusa Bestari, Johor.
- Meanwhile, the property development arm too, experienced a 25% y-o-y increase in turnover arising from higher progress billings at its ongoing projects in Johor Bahru, Muar, Yong Peng and Segamat namely the D'Esplande Serviced Apartments at KSL City Shopping Mall, Taman Nusa Bestari, Taman Bestari Indah, Taman Kempas Indah and Maharani Riviera.
- Sequentially, 3QFY11 revenue grew 2.7% q-o-q on improved contribution from the property investments while the property development turnover remained at similar level. Better gross profit margin achieved during the quarter under review pushed PBT higher by a larger-than-proportionate increase of 20.7% q-o-q. Net profit, however, was only 3.3% higher q-o-q as a result of higher effective tax rate in 3QFY11 of 27% vs. 14.7% in 2QFY11 due to availability of tax losses and unabsorbed capital allowance in 2QFY11.
- KSL's balance sheet remains lean and solid, backed by a NTA/share of RM2.47 and a low net gearing of 0.1x.

- Given the strong 3QFY11 results, we raise our FY11-FY12 earnings projections by 7%-8% to RM94.8 mln and RM121.1 mln respectively, after imputing higher rental income. KSL's earnings visibility is supported by its current unbilled sales of approximately RM175 mln as at end-September 2011, the bulk of which is from the sales of the serviced apartments, D'Esplanade, at the KSL City.
- As for the Group's next flagship project, the 446-acre Bandar Bestari township in Klang, we understand the launch of Phase 1 has again been pushed forward, with the revised date now scheduled in May 2012 from November 2011. To recap, Phase 1 comprises over 300 units of cluster houses as well as semi-detached homes, tentatively priced at approximately RM700,000 and RM900,000 per unit respectively. The indicative GDV for Phase 1 is about RM380 mln. We notice KSL has begun advertising the project in some of the local dailies to generate interest and awareness ahead of the planned launch.

Recommendation

We maintain our **Buy** recommendation on KSL with an unchanged fair value of **RM2.38**, derived from pegging 0.5x against its RNAV. We continue to like KSL for its i) prospective double-digit earnings growths; ii) earnings sustainability over the medium to long term; iii) established recurring income stream, and iv) experienced and hands-on management team. We attribute the recent decline in the share price to the overall weak macroeconomic environment and poor investor sentiment, as KSL's fundamentals remain intact underpinned by its existing orderbook and future projects.

Per Share Data

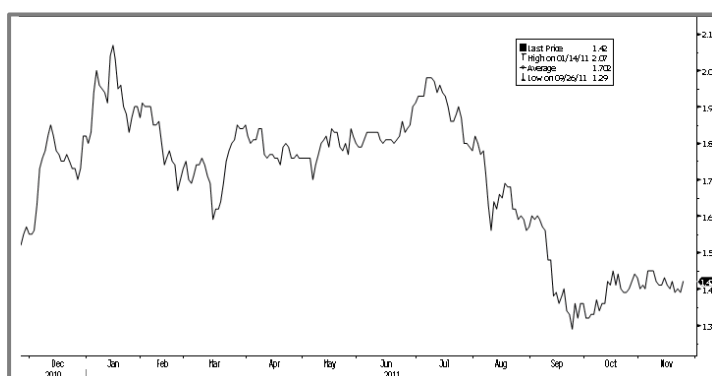
FYE Dec	FY09	FY10	FY11f
Book Value (RM)	2.08	2.27	2.45
Cash Flow (sen)	26.4	32.2	24.8
Earnings (sen)	26.0	32.0	24.3
Net Dividend (sen)	3.8	3.8	3.8
Payout Ratio (%)	15.9%	12.0%	15.4%
PER (x)	5.3	4.3	5.7
P/Cash Flow (x)	5.2	4.3	5.6
P/Book Value (x)	0.7	0.6	0.6
Dividend Yield (%)	2.7%	2.7%	2.7%
ROE (%)	12.5%	13.9%	9.9%
Net gearing (x)	0.2	0.2	0.2

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	186.2	177.9	274.1	359.1
EBIT	117.7	170.6	130.5	165.9
Net Int Exp	(2.5)	(6.2)	(7.3)	(8.6)
Pre-tax Profit	115.2	164.3	123.1	157.3
Eff. Tax Rate	18.6%	22.2%	23.0%	23.0%
Net Profit	91.4	121.7	94.8	121.1
EBIT Margin (%)	63.2%	95.9%	47.6%	46.2%
Pre-tax Margin (%)	61.9%	92.4%	44.9%	43.8%
Net Margin (%)	49.1%	68.4%	34.6%	33.7%

Note: FY09 & FY10 figures include fair value gain on investment properties.

KSL's last 12-month share price chart



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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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